COMPANY RESULTS

Tenaga Nasional (TNB MK)

2Q25: Results Within Expectations; No Provision For Tax Dispute With IRB

TNB reported a lacklustre 2Q25 normalised net profit of RM998m. Earnings were adversely affected by higher repair and maintenance, cyber-security spending and the absence of reinvestment tax allowance. 1H25 net profit of RM2.2b (-13% yoy) is within expectations. We note the absence of tax dispute provisioning in the quarter. Maintain BUY with a DCF-based target price of RM16.30.

2Q25 RESULTS

Year to 31 Dec	2Q25 (RMm)	2Q24 (RMm)	qoq % chg	yoy % chg	1H25 (RMm)	qoq % chg
Revenue	**16,835**	**14,367**	**5.0**	**17.2**	**32,874**	**17.4**
EBITDA	4,087	4,163	(3.4)	(1.8)	8,317	4.9
EBITDA margin (%)	*24.3*	*29.0*	*(2.1)*	*(4.7)*	*25.3*	*(3.0)*
Pretax profit	1,601	1,767	3.0	(9.4)	3,156	12.8
Net profit	1,158	1,444	9.5	(19.8)	2,216	2.6
Core net profit	**998**	**1426**	**(16.9)**	**(29.9)**	**2,200**	**(13.2)**
Operating Matrix			**qoq % chg**	**yoy % chg**		**qoq % chg**
Coal prices (US$)	100.1	112.1	(4.8)	(10.7)	102.3	(9.4)
Coal consumption	9.6	8.7	14.3	10.3	18.0	9.8
Gas prices (RM)	79.1	41.2	80.0	92.0	40.5	3.2
Daily gas allocation	836	978	-	(14.5)	836.0	(16.2)

Source: Tenaga, UOB Kay Hian

RESULTS

- **1H25 core net profit in line with expectations.** Tenaga Nasional Berhad (TNB) reported lacklustre 2Q25 normalised net profit of RM998m (-30% yoy; -17% qoq). In essence, group revenue was dampened by higher opex (due to cyber security charges); higher depreciation and higher effective tax rate (with the expiry of reinvestment tax allowance). 1H25 normalised net profit of RM2.2b (-13% yoy) accounts for 47% of our expectations, deemed in line with expectations.
- We note the absence of tax provision for income tax ruling setback. Foreign shareholding stood at 19.6% as of Jul 25, from 17.6% in Dec 24.

KEY FINANCIALS

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	63,665	56,737	59,022	61,616	64,286
EBITDA	17,840	20,542	21,450	22,171	22,866
Operating profit	6,574	9,309	9,949	10,723	11,468
Net profit (rep./act.)	2,770	4,699	4,349	4,642	4,940
Net profit (adj.)	3,735	4,329	4,349	4,642	4,940
EPS (sen)	65.7	76.1	76.5	81.6	86.9
PE (x)	20.5	17.7	17.6	16.5	15.5
P/B (x)	1.3	1.3	1.2	1.2	1.2
EV/EBITDA (x)	6.4	5.3	5.3	5.0	4.8
Dividend yield (%)	3.4	3.8	3.8	3.9	4.2
Net margin (%)	4.4	8.3	7.4	7.5	7.7
Net debt/(cash) to equity (%)	72.0	62.6	66.2	61.2	56.3
Interest cover (x)	4.7	5.9	5.6	5.3	5.1
ROE (%)	4.7	7.9	7.1	7.4	7.8
Consensus net profit			4,692	5,000	5,272
UOBKH/Consensus (x)			0.93	0.93	0.94

Source: Tenaga Nasional, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM13.44
Target Price	RM16.30
Upside	21.3%

COMPANY DESCRIPTION

Generates and distributes electricity in Peninsular Malaysia and Sabah.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	TNB MK
Shares issued (m):	5,829.1
Market cap (RMm):	78,343.7
Market cap (US$m):	18,575.9
3-mth avg daily t'over (US$m):	25.3

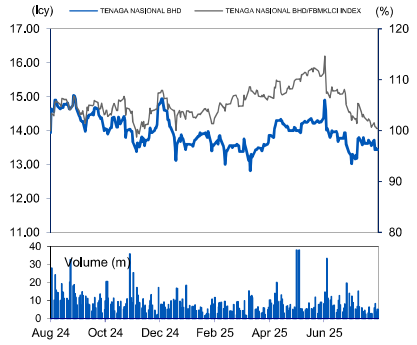
Price Performance (%)

52-week high/low RM15.24/RM12.66

1mth	3mth	6mth	1yr	YTD
0.6	(4.7)	(1.2)	(4.0)	(10.0)

Major Shareholders	**%**
EPF	18.9
Khazanah Nasional	18.1
Amanah Saham Nasional	12.3
FY25 NAV/Share (RM)	10.92
FY25 Net Debt/Share (RM)	7.00

PRICE CHART



Source: Bloomberg

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- **Interim dividend of 25 sen/share.** As expected, TNB declared an interim DPS of 25 sen/share. We expect the group to continue paying out healthy dividends of at least 60% of its net profit over 2025-27. Our 2025 net DPS is projected at 51 sen/share, translating to a net dividend yield of 4%.

STOCK IMPACT

- **2Q25 electricity demand remains healthy,** growing 2% yoy and 7% qoq on the back of higher industrial and commercial demand.
- **2Q25 generation costs eased to 19.4 sen/kwh vs 21.4 sen/kwh in 2Q24.** Global coal prices continue to ease with average coal prices falling 19% yoy and 6% qoq in ringgit terms.
- **Normalised EBITDA margin fell 5ppts yoy and 2ppts qoq** as a result of higher operating expenses, stemmed largely from higher repair and maintenance and general expenses (due to higher computer expenses for software and cyber-security systems). All in all, 2Q25 net profit was adversely affected by higher depreciation and effective tax rate.

EARNINGS REVISION/RISK

- **No change to earnings.**
- **Key risks** include: a) lumpy and unprofitable overseas renewable energy (RE) projects, and b) forex risk to operating cashflow.

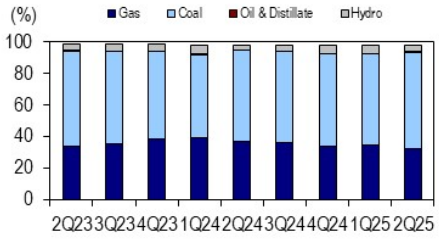
VALUATION/RECOMMENDATION

- **Maintain BUY with a DCF-based target price of RM16.30** (discount rate: 8%, growth rate: 1%). We recently lowered the equity risk premium on the stock (from 8.2% to 7.8%) to reflect tariff autonomy and the gradual decoupling of tariffs from the government's purview. At our target price, the stock trades at 17.3x 2025F EPS, +2SD above five-year mean PE.
- **Key re-rating catalysts** include: a) giving TNB the autonomy to change electricity prices by 7% without seeking Cabinet approval every six months, b) recognition of contingent capex in the 2026-27 earnings window; c) listing of a profitable genco and/or RE division, and d) earnings-accretive M&As.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

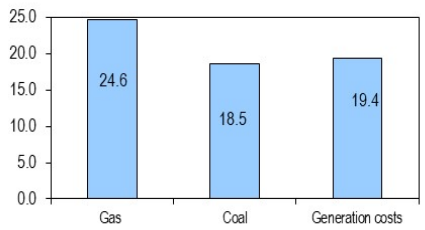
• **Environmental**
- Besides targeting 8,300MW in RE generation capacity by 2025 (1.5x from 3,398MW in Dec 20), TNB has also made new pledges to reduce emission intensity by 2035 and achieve net zero emission on top of being coal-free by 2050.
• **Social**
- TNB has donated: a) around RM4.36m to those affected by COVID-19, b) necessary medical supplies, such as ventilators, respirators, and personal protective equipment (PPE) to government hospitals, and c) RM1m for lighting up official security posts during MCO enforcement throughout the nation from Mar-Nov 20.
• **Governance**
- Good company transparency along with an anti-bribery and whistle-blowing policy.

GENERATION MIX



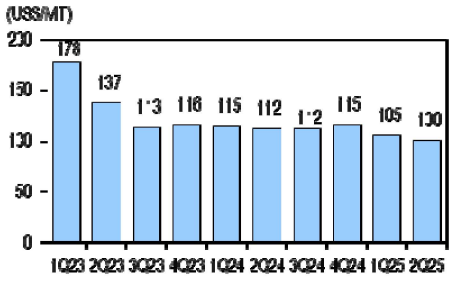
Source: TNB, UOB Kay Hian

GENERATION UNIT COST (2Q25)



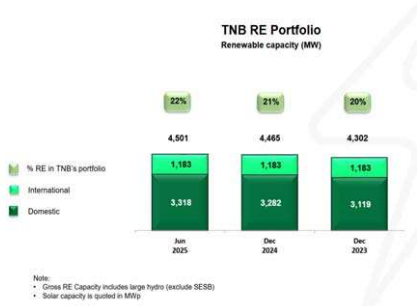
Source: TNB, UOB Kay Hian

QUARTERLY COAL PRICES



Source: TNB, UOB Kay Hian

MILESTONES ACHIEVED ON RE



Source: TNB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**56,737**	**59,022**	**61,616**	**64,286**
EBITDA	20,542	21,450	22,171	22,866
Deprec. & amort.	11,232	11,501	11,448	11,399
EBIT	9,309	9,949	10,723	11,468
Total other non-operating income	-25	0	0	0
Associate contributions	108	113	119	124
Net interest income/(expense)	-3,469	-3,804	-4,166	-4,491
Pre-tax profit	**5,815**	**6,258**	**6,676**	**7,101**
Tax	-1,085	-1,877	-2,003	-2,130
Minorities	-31	-31	-31	-31
Net profit	**4,699**	**4,349**	**4,642**	**4,940**
Net profit (adj.)	4,329	4,349	4,642	4,940

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	125,611	124,977	124,396	123,864
Other LT assets	39,137	39,250	39,368	39,493
Cash/ST investment	19,601	16,302	18,185	20,098
Other current assets	20,707	21,247	21,859	22,490
Total assets	**205,056**	**201,775**	**203,808**	**205,945**
ST debt	6,276	6,176	6,076	5,976
Other current liabilities	27,693	23,131	23,689	24,279
LT debt	51,131	51,031	50,931	50,831
Other LT liabilities	57,387	57,387	57,387	57,387
Shareholders' equity	60,371	61,820	63,465	65,180
Minority interest	2,199	2,230	2,261	2,292
Total liabilities & equity	**205,056**	**201,775**	**203,808**	**205,945**

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**22,447**	**14,472**	**20,113**	**20,696**
Pre-tax profit	815	6,258	6,676	7,101
Tax	0	-1,877	-2,003	-2,130
Deprec. & amort.	11,232	11,501	11,448	11,399
Associates	-108	-113	-119	-124
Working capital changes	0	-5,101	-55	-40
Non-cash items	0	0	0	0
Other operating cashflows	10,508	3,804	4,166	4,491
Investing	**-11,595**	**-10,279**	**-10,302**	**-10,240**
Capex (growth)	-11,264	-10,867	-10,867	-10,867
Investments	0	0	0	0
Others	-331	588	565	627
Financing	**-12,752**	**-7,493**	**-7,928**	**-8,544**
Dividend payments	-2,900	-2,900	-2,997	-3,225
Issue of shares	201	0	0	0
Proceeds from borrowings	-4,364	-200	-200	-200
Others/interest paid	-5,689	-4,393	-4,731	-5,119
Net cash inflow (outflow)	**-1,900**	**-3,299**	**1,883**	**1,913**
Beginning cash & cash equivalent	**17,225**	**15,369**	**12,070**	**13,953**
Changes due to forex impact	43	0	0	0
Ending cash & cash equivalent	**15,369**	**12,070**	**13,953**	**15,866**

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	36.2	36.3	36.0	35.6
Pre-tax margin	10.2	10.6	10.8	11.0
Net margin	8.3	7.4	7.5	7.7
ROA	2.3	2.1	2.3	2.4
ROE	7.9	7.1	7.4	7.8
Growth				
Turnover	(10.9)	4.0	4.4	8.9
EBITDA	15.1	4.4	3.4	6.6
Pre-tax profit	72.4	7.6	6.7	13.5
Net profit	69.6	(7.4)	6.7	13.6
Net profit (adj.)	15.9	0.5	6.7	6.4
EPS	15.9	0.5	6.7	13.6
Leverage				
Debt to total capital	91.7	89.3	86.7	84.2
Debt to equity	95.1	92.5	89.8	87.2
Net debt/(cash) to equity	62.6	66.2	61.2	56.3
Interest cover (x)	5.9	5.6	5.3	5.1

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